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BY OVERNIGHT DELIVERY AND E-FILE

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 05-86

Dear Ms. Cottrell:

On December 1, 2005, the Department of Telecommunications and Energy ("Department") noticed its investigation ("NOI") into standards for arrearage management programs for low-income customers, consistent with the requirements of St. 2005, c. 140, the Heating Energy Assistance and Tax Relief Act ("Chapter 140"), which was enacted on November 22, 2005. In the NOI, the Department noted each jurisdictional company's obligation to provide a detailed plan to coordinate its arrearage management program with low-income weatherization and fuel assistance agencies. NOI at 1. The Department also identified that such plans must be deemed consistent with Chapter 140 on or before February 28, 2006.

By letter dated December 12, 2005, the Department directed Bay State Gas Company ("Bay State") to submit by December 30, 2005 an arrearage management program that complies with Section 17 of Chapter 140.¹

This letter will inform the Department that, pursuant to a Settlement entered into by and between LEAN and Bay State on June 24, 2005, Bay State has in place a pilot arrearage management plan that meets the requirements and moreover, addresses other elements desirable in a Department-supervised arrearage management program. See, Attachment A. Bay State considers its agreement with LEAN to meet all of the requirements of Chapter 140, sec. 17. While the program is still in its infancy, Bay State submits that its arrearage management program substantially complies with the dictates of Chapter 140.

Description of the Program. Bay State's new LEAN arrearage management program is intended to assist participants to receive services from agencies specializing in weatherization

¹ Bay State also received an inquiry from the Department on November 8, 2005 seeking information on its established arrearage management pilot program. Today's response provides additionally the information also sought in that inquiry.

and fuel assistance. These local agencies will be the program delivery network and will provide the front line interaction and coordination between the customer and Bay State. These agencies will manage negotiations with Bay State for payment plans, provide referrals for demand-side management and energy efficiency programs, assist such customers in managing their utility bills through these benefits, and provide budget counseling services and/or referral to financial counseling. Attachment A, p. 2.

Payment plans negotiated under the pilot will conform with the requirements of Section 17 of Chapter 140, to wit, each participating customer will be offered initially the option of an initial down payment of 25% towards his or her arrearage, including a four month balance pay off schedule. The goal is to ensure that each eligible customer receives an array of relevant information about all payment plan options that may accommodate his or her financial constraints. Bay State notes that the Department's NOI indicates that Department approval is required in cases where the appropriate payment plan may exceed four months. Bay State requests that the Department find that its pilot substantially complies with Chapter 140, that the payment plan negotiated with the customer will have the cooperation of the local agencies, and that no further approval is warranted under the Department new regulations under those circumstances.

Eligibility Criteria. The pilot program provides for three (3) separate criteria for arrearage management program eligibility: (1) need immediate financial assistance with outstanding utility bills; (2) be a residential customer of record of the Company; and (3) be income-eligible for Fuel Assistance or have household income at or below 60% of the state median income. Attachment A, p. 2.

Availability of Arrearage Forgiveness. The program authorizes arrearage forgiveness in amounts to be assessed by, determined by and authorized directly by the local assistance agencies. In the Bay State arrearage program, the arrearage forgiveness credit can range from \$100 to \$700 per customer, with an average anticipated payment of \$300 per customer, per agency, as determined by the agency. Bay State is required to notify the agencies each time an arrearage credit is made. Attachment A, p. 3. The pilot also requires Bay State to notify the local agencies when a participating customer misses a payment, and allows the agencies to contact participating customers directly to renegotiate a second payment plan that will permit the customer to complete the program with success.

Coordination with Local Assistance Agencies. As described throughout this summary and the program plan, Bay State's arrearage management plan envisions extensive coordination with local fuel assistance and weatherization agencies. Bay State has agreed to contribute towards the cost of agency personnel training and a program fee for administration costs of participating agencies. Attachment A, p. 4. The agencies currently funded by the program are: Citizens for Citizens, Valley Opportunity Council, New England Farm Workers, and South Shore Community Council.

Number of Customers Participating as of November 1, 2005. The Company estimates that approximately 223 customers will be served by this program, based on the total funding level and average anticipated customer payment.

Evaluation of Effectiveness of Arrearage Management Program. The pilot program will be reviewed for its success on an annual basis. The success of the pilot will be determined based on whether (1) it serves eligible customers fairly and efficiently; and (2) it can be shown to save other customers more money than it costs. Because all other customers pay for the program, Bay State will be looking to ensure that its arrearage management program actually produces a reduction in the level of bad debt that is born by all other customers, especially with regard to gas cost bad debt. Bay State will monitor the accounts of program participants on a monthly basis and report to each agency and LEAN. Bay State will also monitor participant accounts for 12 months before and 18 months after completion of the program. A report will be generated that shows, for each participant, (1) utility balance and arrearage amounts; (2) payments due under negotiated plan; (3) actual payment dates and amounts remitted; (4) amounts billed over most recent 12-months; and, (5) shut-offs and reconnections.

Information Dissemination. Bay State uses the following formats to publish and disseminate information regarding low income assistance and energy efficiency availability, and does so at a minimum two separate times each year (spring and fall): (1) bill inserts; (2) bill messages; (3) GasLines, Bay State's own customer newsletter; (4) full color and print posters to be placed in libraries, assistance agencies and other public places where interested customers may be; (5) newspaper articles; and (6) broadcast and community action media.

Please do not hesitate to telephone me with any questions whatsoever.

Very truly yours,

Patricia M. French

cc: Elizabeth Cellucci, Esq., Hearing Officer
Karen Robinson, Esq., Director of Consumer Services, DTE

Arrearage Management Program

I. Introduction

The Program will provide qualified customers of Bay State Gas Company ("Company") with an arrearage forgiveness credit to assist in enabling said customers to reduce or eliminate an existing arrearage. In addition, said customers will have the opportunity to participate in the Company's energy efficiency program on a priority basis, and receive budget counseling services provided by LEAN agency staff. The Program is targeted at customers who have a demonstrated immediate need for financial assistance and who can achieve longer-term benefits by controlling their utility bills and managing their overall finances. The Program shall commence on or before September 1, 2005 and shall run until the Company's maximum contribution of \$67,000 has been awarded. Six months prior to the estimated expiration of the Program time period, the Company will provide a report, in electronic and hard copy formats, of the data described in section III.(c) below and both parties shall conduct an analysis on participants' payment behavior to determine Program cost-effectiveness for Bay State and shall meet to discuss future funding requirements if the program has proven to be successful.

II. Program Description

The Program will assist eligible participants in receiving the available services provided by agencies in the weatherization and fuel assistance network. The agencies will: (1) assist participants in negotiations with the Company towards a mutually acceptable payment plan; (2) refer customers to appropriate DSM and energy efficiency education programs; (3) assist customers in managing their utility bills through participation in DSM programs, enrollment for utility discount rates, and obtaining fuel assistance and other social service program assistance; and (4) provide budget counseling services and referral to free additional financial counseling. The Company does agree to pay for credit counseling training for agency personnel at a maximum cost of \$500 for 15 agency employees and \$15 for each additional employee.

The Company will designate a single person as the Credit and Collection supervisor that agency representatives may contact by telephone and e-mail. Payment plans may be arranged in the following manner at the option of the participant: 1) payment of current bills plus an apportion of the arrears (if any) 2) a levelized payment plan where the arrearage plus projected usage shall be incorporated into a level monthly payment amount 3) in cases where an

extended period would be required to retire an arrearage, and the client is willing and able to make a regular payment, the Company will negotiate reasonable payment plans on a case-by-case basis.

A. Eligibility Guidelines

To be eligible to participate in the Program, an individual must:

1. need immediate financial assistance with outstanding utility bills;
2. be a residential customer of record of the Company; and
3. be income-eligible for Fuel Assistance or have household income at or below 60% of the state median income.

B. Program Delivery Network

Services will be provided by the fuel assistance agency that serves each locality. The energy efficiency services will be provided through existing programs implemented by the weatherization network, including those approved by the Department of Telecommunications and Energy ("Department").

The Company will provide annual training for participating agencies regarding all energy efficiency program changes. The Company will meet with agency personnel annually to discuss program objectives and requirements.

The Company will refer customers to the agencies. The agencies may also refer customers to the Program. The agencies will also refer customers to the appropriate DSM program.

III. Program Design

(a) Role of agencies

Each agency will assess a customer's need, refer the customer to the appropriate DSM services, and manage financial and reporting requirements. The agency will conduct customer interviews to determine whether the customer is eligible for a low-income discount rate, fuel assistance, or other assistance programs. The agency will provide the participant with budget counseling. If the agency determines that the customer's financial situation is complicated and the budget counseling offered by the local agency is not sufficient, the agency may refer the customer to free credit counseling services for additional assistance which may include negotiating with creditors

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on behalf of the customer. The Company and the agencies will make every effort to ensure the privacy of the information received from the customer.

(b) Payment

After an agency refers a customer to a DSM program, the agency will authorize payment toward the customer's utility bill arrearage, by contacting the designated Company Program Supervisor. The arrearage forgiveness credit will range from \$100 to \$700 per customer, with an average anticipated payment of \$300 per customer per agency, as determined by the agency. Arrearage forgiveness credits will be made in one or more installments, as determined by the agency. The size of the arrears forgiveness and the number of installments thereof will be determined taking into account the desirability of providing an incentive to the participant to pay utility bills regularly, the income and other economic circumstances of the participant, and a payment plan that allows the participant to make all necessary payments on the arrearage not forgiven and including timely payment of current utility bills. The Company will notify the Agency as each arrearage credit is made.

When a participant misses a scheduled payment, the Company will immediately notify the referring agency, and will suspend collections on the account for 30 days from the day of notice to the agency. The agency will contact the participant and will renegotiate a second payment plan where doing so will provide a customer with a reasonable opportunity to successfully complete the Program.

(c) Reporting and Assessment

Each agency will submit a quarterly report to the Company showing the name and customer account number of the customers screened and arrearage forgiveness credit authorized. The report will serve as documentation of the services provided by the agency.

The Company will monitor the accounts of Program participants for 12 months before and 18 months following each customer's completion of the Program and provide the Settling Parties with a report on that customer's: (1) utility bill balance(s) and arrearage amounts; (2) payments due pursuant to a negotiated payment plan; (3) actual payment dates and amounts remitted for the most recent 12 payments; (4) amounts billed over most recent 12-month period of time; and (5) shut-offs and/or reconnections (if any). Customers will be identified by: (1) name; (2) address; (3) account number; (4) billing cycle; (5) rate class; (6) account status; and (7) credit status. The agency shall be responsible for obtaining written authorization to release account information to

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the agency. The Company will provide monthly reports electronically and in hard copy by Agency to LEAN's designee (Jerrold Oppenheim), with the preceding information for each participant in the program. LEAN's designees may combine these data and prepare monitoring reports with respect to arrears, credit category, success with payment plan, interventions where payment problems occurred, and energy burden, and will make data and analysis available to the Company and each Agency.

The Company agrees to pay for credit counseling training for agency personnel at a maximum cost of \$500 for 15 agency employees and \$15 for each additional employee attending.

The Company also agrees to pay a processing fee of \$50 per program participant to administer the program in the Company's service territory where agencies are not presently funded by a federal or state grant. The agencies presently funded are Citizens for Citizens (Fall River), Valley Opportunity Council (Holyoke) and South Shore Community Action Council; this funding is currently expected to extend through December 31, 2005. If new funding is found to cover other agencies in Bay State's territories, the \$50 processing fee will be waived to the extent funding is obtained. However, if funding is eliminated in any agency, including the agencies where it presently exists, the processing fee will be reinstituted. LEAN agrees to provide the Company with 90 days notice of any changes in funding levels.

LEAN will support a Company initiative to recover costs of the Program in excess of the benefits including deferred carrying costs and recoveries over an appropriate period as will be determined in the Company's next general distribution rate case, if such an initiative is brought forward. The Company's benefits analysis will include increased customer payments and third-party payments; decreased site visits; terminations of service and reconnections; decreased collection costs; such as notices, calls, and administrative costs; and decreased costs of money and uncollectibles; including historical comparative data.

The Company agrees to provide information no less frequently than semi-annually to the Parties, including also the following metrics: (1) delivered energy efficiency services, measured by the number of new participants in DSM programs referred by the Program; (2) the amount of arrearage reduction for participating clients; (3) the level of participation in low-income discount rates, fuel assistance, or other assistance programs by Program participants; (4) the number of service shut-off reductions; (5) and a reconciliation of spending.

IV. Program Timeline

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The Parties agree to consult with each other in connection with any public announcement of the Program.

The Program will be ramped up, including training, so that it will be fully operational by November 1, 2005.